Comments Template on EIOPA-CP-11/006 Response to Call for Advice on the review of Directive 2003/41/EC: second consultation		Deadline 02.01.2012 18:00 CET
Company name:	Financial Reporting Council	
Disclosure of comments:	EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential. *Please indicate if your comments on this CP should be treated as confidential, by deleting the word **Public** in the column to the left and by inserting the word **Confidential**.*	Public
	The question numbers below correspond to Consultation Paper No. 06 (EIOPA-CP-11/006). **Please follow the instructions for filling in the template:** ⇨ Do **not** change the numbering in column "Question". ⇨ Please fill in your comment in the relevant row. If you have no comment on a question, keep the row empty. ⇨ There are 96 questions for respondents. Please restrict responses in the row "General comment" only to material which is not covered by these 96 questions. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific question numbers below. ○ If your comment refers to multiple questions, please insert your comment at the first relevant question and mention in your comment to which other questions this also applies. ○ If your comment refers to parts of a question, please indicate this in the comment itself. **Please send the completed template to *CP-006@eiopa.europa.eu*, in MSWord Format, (our IT tool does not allow processing of any other formats).**	
Question	**Comment**	
General comment	The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. We consider that we are particularly well qualified to respond to this consultation due to our independence from those we regulate and our relevant expertise. We focus on high quality regulation that	

supports investment in the UK to generate economic growth and employment.

We set standards for actuarial work for IORPs and insurers through the Board for Actuarial Standards. We set standards for financial statements through the Accounting Standards Board and the work of auditors through the Auditing Practices Board. We are also responsible for the UK's Corporate Governance Code which sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with shareholders. The FRC executive includes actuaries with pensions and insurance expertise as well as other professional such as accountants and lawyers.

We do not consider that the quantitative requirements of Solvency II are appropriate for the broad range of structures used by IORPs in the EU to meet their purpose, the provision of retirement benefits. The proposals could lead to a substantial increase in the cost of running defined benefits pension schemes with the result that employers will shut good quality schemes or decrease benefits. There is a real risk that the proposals could lead to reduced second pillar employer sponsored pension provision and more reliance on first pillar public pension provision.

We consider it likely that the proposals will discourage rather than promote cross-border pension provision due to the substantial increase in regulation. Therefore the proposals are very unlikely to strengthen the single market for occupational pensions.

The proposed timescale for implementing a revised IORP Directive is very ambitious. For example, the consultation period to respond to this *Response to Call for Advice* is too short for us to have been able to properly consider all of the proposals in the paper and formulate a considered reply to the 96 questions. Despite its length, the Consultation Paper still does not set out proposals clearly enough for us to assess the impact of possible changes on IORPs, their beneficiaries and their sponsors. This is compounded by the absence of a full impact assessment.

If changes are made to the IORP Directive without undertaking a thorough cost benefit analysis there is a high risk that they will result in costs to IORPs, sponsors and local supervisors significantly outweighing the benefits to beneficiaries of enhanced risk management. Furthermore, there is a risk of unintended consequences such as:

- a reduction in the amounts available to provide pensions because of the increased costs of operating IORPs;
- further closure of good quality IORPs as sponsors refuse to take on the compliance risk and are concerned about the potential impact on the market perception of their business; and
- changes to investment behaviour as IORPs reduce risk to reduce capital requirements. This has the potential to reduce economic growth and employment in the EU.

We consider that the proposals need considerable further analysis. We therefore suggest that EIOPA work with stakeholders to think through the implications of its advice before making suggestions concerning the wording of a Directive. Consideration of these matters should not be deferred until the development of Level 2 implementing measures. This is particularly the case for the quantitative requirements. We would urge EIOPA to recommend to the EC that the publication of the draft IORP Directive be deferred so there can be full consideration of the potential impact and benefits with adequate time for stakeholder consultation.

We consider that there would be considerable benefit in learning from the experience of the implementation of Solvency II for insurers to identify which aspects work well and which work less well.

It would be helpful to segment future consultations into subject areas which would improve the quality of the responses, particularly on some of the less contentious areas.

EIOPA recognises that IORPs are heterogeneous and also have different characteristics to insurance companies. EIOPA also recognises the need for regulation to be proportionate. We consider that the EU's *Smart Regulation* agenda including principles concerning targeting, correct implementation at the right level, proportionality and an impact assessment should be followed when formulating new regulations for IORPs.

We suggest that EIOPA considers methods which can recognise national differences and be implemented in a proportionate manner to ensure good governance such as codes of good practice coupled with a "comply or explain" approach.

The current IORP Directive 2003/41/EC has an exemption for IORPs with less than 100 members. If the

	Solvency II framework is to be implemented in full there will be a significant increase in the regulation of IORPs. The current Directive 2003/41/EC consists of 40 recitals and just 24 articles. The Solvency II Directive 2009/138/EC consists of 142 recitals and 311 articles; these are to be supplemented by hundreds of pages of Level 2 Implementing Measures and Level 3 Guidelines. While we recognise that EIOPA is suggesting that a proportionate approach should be adopted for any new IORP directive, it is hard to see how around a thousand pages of regulation can be proportionate for many IORPs. We suggest that if the level of regulation is to be significantly increased the exemption is extended so that impact is proportionate. We suggest that EIOPA consider increasing the exemption to all IORPs with less than 10,000 members. We would be happy to meet EIOPA to share our views and experience.	
1.	We have no comments.	
2.	We do not agree that EIOPA should have dismissed consideration of the inclusion of book reserve schemes within the scope of the IORP Directive on the grounds that the Commission is analysing the need to review Directive 2008/94/EC. In book reserve schemes the employer acts as sponsor and guarantor of the IORP. There is no separate entity acting as the provider of the pension, rather it remains a direct obligation of the employer. In theory the security of book reserve schemes is likely to be lower than IORPs which are distinct from the employer. We consider that there is additional security in having a separate entity because there is some diversification of risk away from the employer and there can be some independence in the governance of the IORP. However, for both types of scheme, it is the ability of the employer to continue to meet the retirement benefits as they fall due that is the ultimate security. For this reason, we consider it is anomalous that EIOPA is proposing that book reserve schemes remain outside the scope of the Directive while schemes which are essentially the same are brought within the scope. Indeed the proposals will penalise those employers which wish to offer additional security to members by establishing a separate IORP compared to those which do not.	

3.	We have no comments.	
4.	We are not aware of any such schemes or cases.	
5.	We have not formed any views on this analysis.	
6.	We have not formed a view on the proposed principles.	
7.	We have not considered this question.	
8.	We have not considered this question.	
9.	We have not considered this question.	
10.	We have not considered this question.	
11.	We have not considered this question.	
12.	We agree that it is appropriate for managers of IORPs, members and regulators to consider all the elements that support the pension bargain made between the member and the employer. These include the structure of the IORP, any separately identified assets collateralising that bargain, as well as security mechanisms, such as sponsor support, benefit adjustment mechanisms and pensions protection schemes. However, we consider that further work is required on: • the construction of the holistic balance sheet; • how sponsor covenant is assessed; and • setting trigger points for regulatory action. It would be helpful to have some real examples of how the holistic balance sheet might operate in practice. We would urge EIOPA to carry out further work on the practical application of the concept before recommending the holistic balance sheet to the EC. It is possible to produce useful financial information (the IASB defines useful financial information as being relevant and a faithful representation of what it purports to represent) for some of the elements of	

	the holistic balance sheet. However, we do not consider that it is possible to produce a useful quantative estimate of them all. In particular, we do not consider that it is possible to measure the value of sponsor support in a reliable way for all IORPs. There are inherent difficulties in estimating the value of any sponsor covenant in excess of the recovery plan. There is uncertainty about both amounts and timing of any additional payments that might be made. This makes it very difficult to justify any quantitative estimate as being a faithful representation of the value of the sponsor covenant. This reduces its usefulness as a trigger for action by members, supervisors or the management of the IORP. It is unlikely to be verifiable; it is likely that different experts will come up with a wide range of possible estimates. It is also unlikely to be comparable across different sponsors given the judgements that will need to be made. Where the sponsor is a member of a group of companies, the value of the covenant might need to take account of contractual and non-contractual financial relationships between the sponsor and other members of the group. Depending on how the covenant is to be assessed there could also be significant additional costs to IORPs in making the assessment. EIOPA recognises that quantification of the covenant is a complex task (paragraph 9.3.199) and a methodology is suggested in paragraph 9.3.198 involving the projection of expected cash flows of the sponsor. EIOPA recognises recovery plans might extend over 15 years. This implies that the projection of cash flows might need to extend over a similar period. Such projections are likely to be burdensome; very few businesses project cash flows over such an extended period. Even recognising that proportionate approaches might be applied such projections will require the selection of key assumptions to be made on the basis of limited information with small variations having the potential to produce very large differences in value. It might be possible to adopt a relatively simple metric for estimating the riskiness relating to the cash flows to be valued. The UK's Pension Protection Fund uses a single metric for assessing employer insolvency risk in the calculation of its annual levy. However, such methods only provide an indication of riskiness and only over relatively short periods, typically one to three years. Considering insolvency	

	risk over extended periods will increase unreliability. In their discussion paper, *The Financial Reporting of Pensions* issued in January 2008, the European Financial Reporting Advisory Group (EFRAG) and a group of European accounting standard setters considered quantifying the employer covenant. They said: *"A possible approach would be to require the current value of the employer's covenant to be estimated. This would be a measure that attempted to quantify the amount and timing of future cash flows likely to arise under the covenant, probably using an expected value calculated under a number of scenarios. This would clearly be a burdensome and highly subjective calculation to perform. It is also open to the objection, in principle, that it would seem that it would inevitably take account of future investment returns."* A more pragmatic approach would be to treat the sponsor covenant as sufficient to meet the capital requirement in the majority of cases where there is an employer supporting the IORP. Such an approach should be supported by a robust risk management process including qualitative and quantitative information on risk. The distinction between Article 17(1) IORPs, 17(3) IORPs and sponsor-backed IORPs should be retained. There is a fundamental difference between an IORP which must bear risk without recourse to either sponsors or members, Article 17(1) IORPs, and IORPs where the risk is borne by sponsors or members. That difference concerns the additional security mechanism available to IORPs which have recourse to sponsors and/or members. A high quality risk-based supervisory regime should reflect that difference.	
13.	It is most important to assess assets and liabilities consistently. We consider that liabilities should be valued on a fulfilment basis and the approach to valuing assets should be consistent with this. While market values have the advantage of objectivity, they are determined by buyers and sellers who have different liability profiles to pension plans, usually. The value of the assets to pension plans, who have some of the longest duration liabilities of all investors may be very different to the values to traders and index/benchmark driven asset managers. We observe that the volatility in pension scheme surpluses/deficits during the recent market events has been very high, and may have led sponsors to close or de-risk their plans because of the reporting effects,	

	rather than real changes in underlying values.	
14.	We consider that liabilities should be measured as the fulfilment value of the expected cash flows. This is consistent with the IASB's proposal for measuring the value of insurance contract liabilities; it is also more closely related to the accounting measure of pension liabilities in IAS 19. It reflects the way IORPs are managed. In our experience most UK IORPs are managed in the expectation of meeting their liabilities to pay retirement benefits as they fall due. Using a fulfilment value avoids the need to estimate what a market-based transfer value might be in a market which is neither deep nor liquid. We do not consider that a market consistent approach is appropriate when considering the measurement of pension scheme liabilities. It would require IORPs to estimate the cash flows applicable to market participants as well as the cash flows that apply to the IORP itself as it fulfils its obligations. We note that this has proved an issue in considering technical provisions in respect of expenses for insurers under the Solvency II directive. However, where the IORP's cash flows are dependent on market variables then these cash flows should be consistent with observable market prices. We support option 1 and suggest that the IORP is left unchanged with regard to the transfer value principle. We do not support option 2.	
15.	We agree that the own credit standing of IORPs should not be taken into account when valuing liabilities.	
16.	It is difficult to disagree with this proposal but further work should be carried out to define the expression "to the extent appropriate" to avoid divergent interpretations of what this means in practice. Caution will be needed as accounting standards are developed to meet the needs of a different primary audience and for different purposes than the needs and purposes of supervisors.	
17.	It appears reasonable to adopt Articles 76(1), (4) and (5). Our view is that option 1 regarding Article 76(3) should be recommended to the EC for the reasons we give in our response to question 14.	
18.	We support option 3 that the technical provisions should be based on the best estimate of cash flows with	

	no explicit risk margin. This is consistent with IFRS and UK GAAP accounting standards. We consider that there is considerable uncertainty concerning future cash flows of IORPs particularly with regard to changes in future mortality rates. This uncertainty cannot currently be quantified in a reliable way. We consider that managers, members and supervisors would be better served by disclosure about the sensitivity to changes in the assumptions that have been used in arriving at the best estimate rather than attempting to put a single number on a margin for risk. We do not support the proposal in option 2 that the risk margin should be calculated in accordance with Solvency II. We do not consider that liabilities should be based on the concept of the transfer of liabilities using a market consistent approach for the reasons described in our answer to question 14. Neither do we consider that the concept of solvency capital is relevant in the context of an IORP that does not bear the risk of significant adverse events but relies on alternative risk mitigants such as the employer covenant, protection schemes and benefit reductions. We do not support option 1 because we do not consider that it is possible to calculate a risk margin in a reliable way. We consider that putting a single number on the risk is not appropriate, different experts might come up with quite different views on an appropriate risk margin given their view on future changes in mortality rates. Many IORPs are small and therefore the use of statistical techniques to estimate a single risk margin might not be appropriate.	
19.	We do not have any views on this proposal.	
20.	It is rare for IORPs to use reinsurance and special purpose vehicles in the same way as insurance companies. We would question the need for the proposed regulation.	
21.	We do not agree that a risk-free rate is always appropriate for determining the technical provisions of IORPs. We do not understand the reason for not presenting option 1 – maintaining the current rules of the IORP Directive – presented in paragraph 9.3.91 as we do not consider that such an approach is incompatible with the holistic balance sheet. Some members of EIOPA also seem to recognise this as option 3 suggests that one level of technical	

	provisions might be calculated using the expected return on assets albeit with another level calculated at a risk-free rate. These levels are to be used to determine different funding rules and supervisory responses concerning possible underfunding. We see that in Solvency II, the EC is proposing that a rate higher than a risk-free rate is appropriate for certain types of businesses which are managed in a particular way. We consider that similar arguments might be made to justify the use of a discount rate greater than risk-free for IORPs. We also note that the IASB is proposing that the discount rate for insurance liabilities might either be based on the expected return from assets adjusted to allow for expected losses or a risk free rate plus a premium to allow for the illiquidity of insurance liabilities. We consider that setting risk-free discount rates based on the market price of certain assets might be inappropriate, especially in times of stress as the past months have indicated. We consider that an expected return on assets is a better option given that we consider a fulfilment value approach should be used. By expected return we consider that appropriate adjustments should be made to allow for the probability that asset cash flows might vary as a result of credit and other events that might affect future cash flows. We therefore consider that the existing IORP Directive wording which states that the discount rates should take account of asset yields and future investment returns and/or the yield of high quality or government bonds remains appropriate. We do not perceive there is a need for any further level 2 implementing measures to determine these discount rates provided there is appropriate disclosure. We consider that the market has already successfully come to terms with the current requirements.	
22.	The proposal appears reasonable although it should be noted that the proposal could lead to an increase in upfront costs for sponsors. It needs to be recognised that the amount of future expenses will not be known and an estimate will need to be made. Level 2 should therefore allow flexibility in determining the amount of expenses to be taken into account in the technical provisions.	
23.	We agree with the analysis. We do not agree that discretionary benefits should be included in technical provisions. We consider that	

	option 1 (not to include discretionary benefits in technical provisions) is appropriate to IORPs. This reflects the difference between the relationship between the sponsor, the IORP and its members and the relationship between an insurer and its policyholders. Where insurance contracts give the right for policyholders to participate in profits then the obligation for insurers to treat such policyholders fairly will mean there is no effective discretion over granting additional benefits. We consider that in practical terms, insurance benefits are either unconditional or conditional. We consider that the contractual relationship between the employer and employee concerning retirement benefits does not necessarily give rise to the same concept of fair treatment in respect of benefits arising from favourable experience. We do not consider the Solvency II article on surplus funds useful for IORPs. Surplus funds in IORPs are not liabilities under IAS 19 and so should fall into own funds automatically in any event.	
24.	The proposal is not unreasonable although we consider that article 15 of the existing IORP already allows for this.	
25.	We do not agree that it would be useful to introduce article 80 into a revised IORP. We consider that article 15 of the existing IORP is sufficient. A requirement to segment would be disproportionate for many IORPs.	
26.	We have not formed any views on the proposed options. It is rare for IORPs to use reinsurance and special purpose vehicles in the same way as insurers.	
27.	We consider that IORPS should be required to ensure that the data used in calculating technical provisions is sufficiently accurate, relevant and complete to ensure that users can have confidence in the reliability of amount of the technical provisions. However, we consider that Article 82 is disproportionate in its requirements for data accuracy. We consider that proportionality should be allowed for explicitly in such a requirement. The Technical Actuarial Standards produced by the FRC's Board for Actuarial Standards for the calculation of technical provisions for UK pension schemes requires only that practitioners should be able to determine *the extent to which, taken overall, the data is sufficiently accurate, relevant and complete for the user (scheme*	

	managers) to rely on the information (the technical provisions).	
28.	We agree with the principle that the best estimates of the cash flows used in calculating the technical provisions and the assumptions underlying their calculation should be checked against experience from time to time. However, we consider that the requirement for proportionate application of this principle should be made more explicit. It should be recognised that for the many smaller IORPs the comparison might not be statistically meaningful making identification of systemic deviations difficult.	
29.	While we agree that this is a reasonable proposal, it might give rise to a significant burden on the supervisor. The cost of this burden is likely to fall on IORPs.	
30.	While such a proposal might appear reasonable we consider that this places a heavy burden on the regulator to verify all calculations of technical provisions. The cost of this burden is likely to fall on IORPs. For this reason we do not agree that article 85 should be introduced.	
31.	While this proposal appears reasonable we are concerned that the additional regulations will impose a disproportionate burden on IORPS. The existing IORP directive includes one article (15) on technical provisions. The Solvency II directive includes 11 articles (articles 76 to 86) concerning technical provisions. The current Level 2 implementing measures include a further 39 articles (Chapter III articles 12 – 50). There are likely to be a significant number of Level 3 guidelines on matters concerning technical provisions. This appears to be a very substantial increase in regulation. While an argument can be made for each of the proposed articles, when looked at as a whole we consider that the overall regulatory burden is disproportionate and will lead to a significant increase in cost for IORPs which will be met either by their members through lower pensions or their sponsors. The sponsor reaction might well be to consider closing down the IORP reducing members future pensions rights.	
32.	There might be specific circumstances where a Member State might wish to set additional rules in order to protect benefits. We see no reason for preventing this so long as there are valid reasons for setting additional rules. However it should be noted that if one state is allowed to set more stringent funding	

	standards than another then this might undermine cross-border schemes. We do not understand EIOPA's reasoning for stating that the option of no change is inconsistent with the holistic balance sheet approach.	
33.	We consider that the analysis regarding sponsor support is useful. We agree that supervisors should take account of all forms of sponsor support in their supervisory process. However, for the reasons given in answer to question 12 we do not consider it appropriate that a quantitative approach to the evaluation of sponsor support is appropriate. Similarly we do not consider that it is necessary to quantify an SCR in such circumstances. We do consider that qualitative descriptions are most appropriate and are a proportionate response to the risks faced by the IORP. We consider that the best estimate of technical provisions should be complemented by a discussion of the risks and uncertainties faced. This discussion might include sensitivity tests or scenario analyses to give users a deeper understanding of the uncertainty. Against this there is a quantification of the financial assets held. This too might be complemented by a discussion of the uncertainties surrounding the expected cash flows that they are expected to generate. In addition, additional contributions from the sponsor can be considered under any agreed recovery plan. This might be complemented by a discussion concerning the ability and willingness of the sponsor to make additional contributions. Taken as a whole this should be sufficient to make decisions concerning the going concern nature of the IORP and its ability to cope with uncertain outcomes.	
34.	We do not agree that articles 87 – 99 of Solvency II are applicable to all IORPs. Where the IORP bears the risk, then as the existing IORP directive points out, such IORPs are very similar to insurance companies. It might therefore be appropriate to apply articles 87 -99 suitably amended to them. However, IORPs backed by a sponsor have very different characteristics and the concept of ancillary own	

	funds and tiering of own funds does not make sense for these IORPs. In the absence of any robust analysis and research on the matter we consider that quantitative analysis of a holistic balance sheet is likely to be unreliable and that, as described in our response to question 33, a more qualitative analysis is required to consider the ability of the IORP to remain a going concern.	
35.	We do not have a view on this proposal. We are not aware of the existence of any significant subordinated loans from employers to IORPs.	
36.	The analysis is not supplemented by an impact assessment which would have helped to illustrate the amount of additional capital requirements which would be needed by IORPs. We consider that an impact assessment should be produced before deciding whether to introduce or not a uniform security level for IORPs across Europe. The probability level of 99.5% in Solvency II would result in significant additional capital being required for many IORPs. However, the nature of the IORP arrangement is very different from the contractual nature of insurance policies. We consider that the requirement to quantify a minimum security level based on a VaR type measure is disproportionate, particularly if there is to be no corresponding obligation on book reserve schemes. The introduction of Solvency II is estimated to be costing the UK insurance industry £1.9 billion with a further £0.2 billion being spent by the regulator. A significant part of this expenditure will be related to quantifying the SCR. As discussed in our answer to question 34, we consider that assessment of security should rely on simpler quantifications of the best estimates of the liability cash flows and asset cash flows complemented by analysis of risk and uncertainty which would include both qualitative and some quantitative analysis.	
37.	As we do not consider a VaR approach is proportionate we have not considered the appropriate time period over which it should be assessed.	
38.	As discussed in our answer to question 34 we do not consider the Solvency II methodology is proportionate for IORPs which can call on a sponsor to meet risk. We therefore, do not consider that applying the Solvency II rules for calculating an SCR is appropriate for all IORPs.	

	Where the IORP has to bear the risk, a section 17(1) IORP, then the solvency II rules might be applied taking full account of any specific security and benefit adjustment mechanisms that might be available to it.	
39.	We consider that the requirement contained in article 15(3) of the IORP Directive concerning the calculation of technical provisions might also be applied to the assessment of solvency. This provides that the assessment should be provided annually but at the member state supervisor's discretion, a full assessment must be made every 3 years with an annual report considering adjustments for interim years.	
40.	We do not support the imposition of a MCR as well as a SCR as there would be additional costs to IORPs without clear benefits.	
41.	We consider the analysis regarding pensions protection schemes draws out some of the theoretical issues. However, we agree with the conclusion in paragraph 10.3.136 that further work should be carried out, including a quantitative impact study, before taking any decisions on this matter.	
42.	The level of capital requirement for operational risk for DC schemes is likely to be relatively small. We would suggest that a proportionate approach would be not to require a capital requirement because there will usually be a sponsor with sufficient resources to cover the operational risk.	
43.	We consider that Article 136 would need to be adapted for IORPs. As recognised in paragraph 10.3.177 there would potentially be an extra administrative burden on IORPs and supervisors. We consider that this could be significant for smaller IORPs. Therefore we believe that a proportionate approach is required which might take account of the size of the IORP, the level of funding and the nature of the deterioration. A principles based approach would be appropriate allowing IORPs to adopt an approach which is appropriate and proportionate for their circumstances.	
44.	Articles 138 and 139 are written for insurance companies and in their current form are unsuitable for IORPs. We consider that the requirements for recovery plans should be written from first principles for IORPs rather than modifying the Solvency II requirements. We consider that a maximum 15 year recovery plan for IORPs will normally be reasonable although there might be exceptional circumstance where a longer plan could be justified. For this reason we would not	

	support hard-coding a maximum term within regulation.	
45.	Articles 137 and 140 are written for insurance companies and in their current form are unsuitable for IORPs. We are not convinced of the need for the inclusion of these stipulations in the IORP Directive.	
46.	We agree that the IORP Directive should specify what constitutes a recovery plan but consider that the provisions of the current IORP Directive are a better starting point for drafting than Articles 142 of Solvency II.	
47.	We have not considered this question.	
48.	We have not considered this question.	
49.	We have not considered this question.	
50.	We have not considered this question.	
51.	We have not considered this question.	
52.	If there is to be supervision of IORPs, then we agree that its main objective should be to protect members and beneficiaries. We also agree that supervisors should consider the potential impact of their decisions on the stability of financial systems and to consider the potential pro-cyclical effects of their actions in cases of extreme stress. We consider that these principles are all that is needed. We consider that the Pillar I quantification of the SCR is inappropriate for IORPs where the risk is carried by the sponsor (see response to question 33). Therefore, we suggest it is not necessary to specify any specific supervisory action such as the inclusion of an equity dampener in the determination of the SCR.	
53.	We agree with the principle.	
54.	We have not considered this question.	

55.	Stress tests are helpful to governing bodies and employers sponsoring IORPs as well as supervisors. However, tests need to be proportionate and appropriate for specific circumstances. The wide range of circumstances makes it difficult to specify a test which can be performed uniformly. So it might be preferable to allow local regions to specify the stress tests or to adopt a principles based approach.	
56.	Sanctions against IORPs may penalise members reducing amounts available to meet retirement benefits. We agree that further analysis should be conducted to see if there is any need for harmonisation of sanctioning regimes.	
57.	We have not formed any views on this matter.	
58.	We have not formed any views on this matter.	
59.	We consider that the requirements for the supervisory review process for insurers should only apply to IORPs if on a proportionate basis.	
60.	We do not consider that the requirements for capital add-ons are appropriate for IORPS.	
61.	The proposal appears reasonable if implemented on a proportionate basis. We have a general concern that while many of the individual points concerning supervision and governance are reasonable when considered one by one, when added together they impose a significant regulatory burden. We are concerned that the cost of compliance will outweigh the benefit of increased security for members.	
62.	We have not formed a view on this question.	
63.	The proposals seem not unreasonable provided they can be implemented on a proportionate basis for less complex IORPS.	
64.	We have not considered this question.	
65.	It is proposed that the requirements of Article 42 of Directive 2009/138/EC are introduced for IORPS but with modifications. It is noted in the preliminary impact assessment that the proposal could complicate	

	wider participation in the scheme and the use of lay trustees. Noting this we would encourage EIOPA to consider other approaches. IORPs have different characteristics to insurance companies and different governance approaches may be appropriate and it is not clear to us what the benefit to IORPs and their members would be from the proposed change. Article 9 of the current IORP Directive states that *the institution is effectively run run by persons of good repute who must themselves have appropriate professional qualifications and experience or employ advisors with appropriate qualifications and experience.* This is supported in the UK by the Pensions Regulator's Code of Practice for trustee knowledge and understanding which sets out standards of conduct and practice for pension schemes which it regulates and a set of training modules which is available on the Pensions Regulator's website. These resources support trustees in the governance of UK IORPs. The FRC's UK Corporate Governance Code recognises that the composition of a Board is important for its effectiveness and includes a very similar principle to the current directive that says *The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.* This principle is supported by some further principles and provisions. We recommend that it might be more appropriate to build on the current wording, perhaps within Level 2, along the lines on the FRC's UK Corporate Governance Code. We would be happy to work with EIOPA in developing this proposal.	
66.	No, we consider that it should be possible for a member of the IORP's governing body to take up their position and then complete an appropriate training course. This is particularly relevant to member nominated governors. We agree that supervisory bodies should have effective procedures and controls to assess fitness and propriety. However this might impose a substantial burden on the supervisor. We also consider it important that fitness be assessed collectively for the body running the IORP rather than individually as	

	different individuals will have different strengths and experiences.	
67.	We have not formed a view on this question.	
68.	We consider that risk management is important for IORPS of all sizes and are supportive of the general concept of requiring a risk management system. However, the approach taken needs to be proportionate and appropriate. While we support the aim of the proposed wording we consider that proposal needs further work to ensure it is appropriate for IORPS – for example the list of risks in paragraph 2 is copied from the Solvency II directive and needs to be amended so it better reflects the common risks in IORPs. The concept of a risk management function does not fit well into most pension schemes in the UK. Instead we consider the risk management system should be the responsibility of the bodies responsible for running the IORPs acting on advice of the actuarial function. The proposed requirements in respect of partial or full internal models would be likely to result in considerable additional costs.	
69.	We consider that in principle requiring IORPS to monitor their own risks and to have a practice of forward looking solvency assessment is appropriate. However the detailed requirements need to be proportionate. We consider that the ORSA process in Solvency II is excessive for most IORPs. Principles based regulation would support different approaches for IORPs with different circumstances and needs. However, there is a danger that new requirements could result in considerable extra costs for IORPs. The administrative impact of introducing the ORSA needs to be considered in conjunction with the administrative impact of other provisions. We would therefore suggest that the general objective of the ORSA can be achieved by proper and appropriate risk management.	
70.	As in our response to question 69 we consider that the objective of the ORSA can be achieved by proper and appropriate risk management.	
71.	We have not formed a view on this question as it is dependent on how the holistic balance sheet is operated.	
72.	We have not considered this question.	

73.	We consider that the proposals for a compliance function are likely to increase costs but it is not clear that there will be sufficient benefit to members to justify this increase. Furthermore an IORPS unlike an insurance company is not a business entity in its own right. We consider that other safeguards such as having an internal control process will be sufficient. If Solvency II is adopted as the model for IORPs regulation then there will be a substantial increase in the compliance burden even if it is implemented proportionately.	
74.	It is proposed that IORPs are required to have an internal audit function. While on the face of it the proposals appear to be reasonable, it would appear likely that it will lead to additional costs in the administration of smaller IORPs. It would be usual for any internal audit needs to be covered by the internal audit team of the sponsoring employer. Many smaller employers might only have limited internal audit resources or rely on external audit for this purpose. It is not clear to us what evidence there is that the introduction of a specific internal audit function in addition to other governance requirements would be of benefit to members of IORPS.	
75.	We have not formed a view on this question.	
76.	We consider that the actuarial function has a key role in performing calculations and advising governing bodies on a wide range of matters including assumptions, risk and uncertainty. The list of roles for the actuarial function proposed in section 24.5 is based on the roles specified in the Solvency II Directive with minor amendments to reflect IORPs. The role of the actuary with respect to an IORPs is different from the insurance actuary. In particular, much of the work of the risk function in an IORP will be performed by the actuarial function. This reflects the limited nature of the risks of IORPs compared to insurers. We suggest that EIOPA perform further work to define the role of the actuarial function more completely. In particular, EIOPA should reconsider the proportionality of its apparent assumption that the actuarial function needs to be performed by a natural person, as suggested in 24.3.4, rather than by a firm. There is no corresponding requirement for auditors to be natural persons, and indeed firms of actuaries may be better able to secure safeguards on the independence and quality control of the actuarial function.	
77.	We do not consider that the requirements of Solvency II are the correct starting point for defining the role	

	of the IORPs actuary as it is significantly different from that of the insurance actuary. We consider that the actuarial function has a key role in providing advice to the IORP's governing body on the risks it faces.	
78.	We support the requirement of independence of the actuarial function. The criteria for the independence of the actuarial function can be considered during the development of level 2, but will need to reflect and respond to the conflicts of interest inherent in the relationship between sponsors and members.	
79.	We generally agree with the analysis. However, as suggested in our response to question 76, we consider that EIOPA should also consider the implications of not requiring the actuarial function to be performed by a natural person.	
80.	The requirements appear reasonable.	
81.	We have not formed a view on this question.	
82.	We have not formed a view on this question but consider that any requirements should be proportionate.	
83.	We have not formed a view on this question.	
84.	We have not formed a view on this question.	
85.	We have not formed a view on this question.	
86.	We have not formed a view on this question.	
87.	We have not formed a view on this question.	
88.	We have not formed a view on this question.	
89.	The analysis appears to be reasonable. However, much depends on what level 2 will require. We consider that the requirements that Solvency II is proposing for insurers are disproportionate for IORPs.	
90.	In theory convergence appears attractive but as noted in the analysis convergence could result in	

	significant additional costs and might make supervision more difficult.	
91.	We consider that additional information requirements are not necessary.	
92.	The proposal appears reasonable but it would be helpful to see examples of the statement. A KIID-like document might achieve consistency of information which would be of benefit to consumers but it could also result in less creativity by providers and lower quality communication. We would suggest consumer research is carried out on the benefits of a KIID-like document.	
93.	This is a very complex area and we suggest there is a separate consultation on it.	
94.	We are happy with the introduction of a requirement for a personalised annual statement to be delivered to each member. The question on whether statements should include information on costs has been debated in the UK. It is of benefit to IORP members to understand costs and to be able to compare costs of different products. However, providing the information is not easy due to the different costs incurred and the way they are incurred.	
95.	We consider that it would be beneficial to members of IORPs if information was produced in a consistent format to that produced by insurance companies. For example in the UK there should be consistency between information produced for members of occupational DC schemes and personal pension schemes operated by insurance companies.	
96.	The limited impact assessments in the consultation paper are not sufficient for us to be able to understand the impact of the proposals which are discussed. The review of the IORP Directive is a major exercise which could result in significant additional costs and could change behaviour, both in positive and negative ways. We consider that it is essential that a thorough impact assessment is carried out before the proposals are developed further.	